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El Salvador

COFFEE ANNUAL

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Report Highlights:

El Salvador's coffee production is expected to reach 1.38 million 60 Kg. bags in 2008/09. Favorable international coffee prices are providing relief to El Salvador's depressed coffee sector. Continued efforts to promote specialty coffee are paying off as exports of higher quality coffee are increasing, and now account for almost 30 % of total exports. El Salvador continues to use activities such as the Cup of Excellence to promote coffee abroad. In addition, El Salvador once again had a stand at the 2009 Specialty Coffee Expo, where various coffee brands were exposed to quality coffee buyers. The Coffee Trust (Fonserva) created by the Government of El Salvador (GOES) to sell ecological bonds and cover 30 percent of the coffee sector debt of approximately \$175 million has also provided some financial relief to coffee farmers.

Executive Summary:

El Salvador's Marketing Year (MY/October-September basis) 2008/2009 coffee harvest is expected to be approximately one percent lower than previously reported. New data provided by the Salvadoran Coffee Council (CSC) reveal that the 2008/09 harvest is expected to reach 1.38 million 60 Kg. bags due to the low bi-annual production cycle and to late winter storms.

Lack of sufficient financing to carry out necessary agricultural practices due to carried-over debt burden in the coffee sector continues to negatively affect a sustained production turn-

around. A good rainy season so far; and some increase in fertilizer use and improved agricultural practices due to a rebound in international prices are expected to lessen the decrease in production for the 2009/10 harvest. However, property sales to honor overdue debt continue as well as urban encroachment.

Coffee exports in 2008/09 are expected to reach 1.3 million 60 Kg. bags. Export numbers for 2009/10 are expected to increase due to greater production. Local financial institutions continue to require farmers to have a planned coffee-sales program in order to have access to loans. This requirement is forcing farmers to forward contract their coffee and avoid speculation. Germany is the main export destination for Salvadoran coffee, accounting for almost 35 percent of MY 2008/09 exports through April 2009. In MY 2008/09, exports to the U.S. are expected to reach 356,965 sixty Kg. bags accounting for approximately 25 percent of total exports. Other important markets are Canada, Japan, Belgium, and France.

Lack of local ground coffee processing facilities has favored the market for soluble coffee. This has led to a continued increase in soluble imports, mainly from Brazil and Nicaragua. Guatemalan, Costa Rican, Honduran and Mexican coffees are also present in the retail and institutional market.

The CSC continues to monitor exports through the use of export registrations permits. The Government of El Salvador (GOES) has guaranteed through the Multi-Sectoral Investment Bank (BMI) a loan of US\$ 32.00 per hundredweight (cwt) to cover routine maintenance and harvesting during the 2009/10 crop season (Please refer to Policy for further information). Coffee is still the most important source of employment in rural areas, with the coffee harvest alone providing approximately 130,000 jobs. However, coffee is no longer the major source of export revenues in El Salvador, having been replaced by non-traditional products such as processed ethnic food products and tropical fruits. Coffee exports in 2009/10 are expected to generate approximately US\$260 million in foreign exchange.

The coffee sector continues to struggle due to outstanding debt of approximately US\$189 million that has been deferred to long term debt through the GOES "FICAFE" (Coffee Trust) program that began in 2001. Under FICAFE, the debt burden was negotiated with the private banking sector so that the coffee producers would have 23 years and a 3 year grace period to cover their debt.

El Salvador continues to promote Salvadoran coffee, focusing mainly on specialty and gourmet qualities (See Trade). The agricultural sector is the fastest growing sector in the economy assisted by higher prices for coffee and sugar, as well as increased market access for sugar and growing processed food exports under the Central America – Dominican Republic (CAFTA-DR) free trade agreement.

Commodities:

Coffee, Green

Production:

New production numbers compiled by the Foreign Agricultural Service (FAS) office in San Salvador reveal that the 2008/09 coffee harvest is expected to reach 1.38 million sixty Kg. bags. A normal reduction due to the off-production cycle is the main reason for the decreased production. So far, favorable weather conditions for coffee flowering, and increased investment in labor and inputs due to improved coffee prices are expected to increase production in 2009/10. Total production is estimated at 1.52 million sixty Kg. bags.

The GOES continues to guarantee loans to the coffee sector. Cultural practices have improved due to fresh capital from higher prices. However, the high cost of fertilizers and other important inputs plus the increased transportation costs will have a negative effect in future coffee production.

Value-added production such as gourmet, specialty, fair trade and organic coffees continue to provide additional revenue to coffee producers. Specialty coffee production has steadily increased, reaching approximately 30 percent of total production in MY 2008/09. Recently, the CSC successfully organized the seventh edition of the "Cup of Excellence" promotional event to increase exposure of fine Salvadoran coffees in the specialty market. In addition, the CSC is promoting trade missions composed of European and American specialty coffee bars to sample Salvadoran coffee. (Refer to Trade for further information).

Consumption:

New data compiled by the CSC show an increase in domestic coffee consumption. Increased availability of coffee brands at the retail level is stimulating consumption. In addition, the trend for coffee bars located in major shopping malls continues. In MY2008/09, consumption increased to 230,000 sixty Kg. bags. Most local consumption has shifted to soluble coffee which is mainly imported from Brazil, Nicaragua and Mexico. In MY2008/09, soluble domestic consumption is expected to reach 200,000 sixty Kg. bags Green Bean Equivalent (GBE). Roasted/ground domestic consumption remains at similar levels reaching 30,000 sixty Kg. bags in the same period. Guatemala and Costa Rica are new players in the retail market for this type of coffee.

El Salvador only consumes approximately 3 percent of local production. Accordingly, there is room to grow local consumption as well as to promote the unique characteristics of Salvadoran coffee in the export market.

Trade:

Coffee exports for MY2008/09 are estimated at 1.3 million sixty Kg. bags. This number is lower than previously reported mainly due to a smaller crop. In MY2009/10 coffee exports are forecast at 1.45 million sixty Kg. bags.

Exports to the U.S. in MY 2008/09 accounted for approximately 25 percent of total exports, reaching 318,500 sixty Kg. bags. Germany is the main export destination for Salvadoran coffee accounting for approximately 35 percent of total exports. Other active buyers in this market are Belgium, Canada and Japan.

Premium prices obtained by gourmet and specialty coffees have increased the amount of exports of this type of coffee. The CSC, backed by USAID, sponsored for the seventh successive year the promotional event called the "Cup of Excellence". The best coffees

produced in El Salvador are selected by local and international coffee connoisseurs to participate in a global electronic auction. Local coffee is successfully sold to U.S., Japanese and European buyers with prices higher than spot Contract C prices.

Export Trade Matrix El Salvador Coffee, Green			
Time Period	MY	Units:	60 Kg. Bags
Exports for:	2008		2009
U.S.	318,500	U.S.	356,965
Others		Others	
Germany	447,200	Germany	501,208
Canada	113,100	Canada	126,759
Japan	107,900	Japan	120,931
Belgium	94,400	Belgium	106,361
France	87,100	France	97,619
Total for Others	849,700		952,878
Others not Listed	132,000		147,200
Grand Total	1,300,200		1,457,043

On April 2009, El Salvador participated in the 21st Symposium and Exhibition of the Specialty Coffee Association of America (SCCA) attracting many interested buyers to their stand.

The CSC also continues to actively promote coffee through trade missions composed of European, American and Japanese specialty coffee bar owners that visit the country's best coffee production sites and get to acquaint themselves with the unique qualities that Salvadoran coffee provides to coffee blends.

Also programs such as the Rainforest Alliance Certification are being extended to include more coffee producers in this ecological seal program. Up to now, 231 farms and 34 mills have been certified. Farmers that join this certification program have to improve the quality of life of workers as well as surrounding communities, must preserve the ecosystem, protect wild life and conserve water resources in order to have access to a premium for their coffee production.

Nestlé has become a major importer and distributor of mainly Brazilian and Mexican origin coffee. In Calendar Year 2008, Brazil supplied 100,254 sixty Kg. bags GBE of soluble coffee to the market. Nicaragua is also very aggressive in the soluble coffee market and accounted in the same period for 19 percent of total imports.

Import Trade Matrix El Salvador Coffee, Green			
Time Period	CY	Units:	60 Kg. Bags
Imports for:	2008		2009
U.S.	4,614	U.S.	4,000
Others		Others	
Brazil	100,254	Brazil	99,000
Nicaragua	31,874	Nicaragua	30,300
Mexico	11,437	Mexico	10,500
Guatemala	7,811	Guatemala	5,200
Costa Rica	3,404	Costa Rica	3,000
Honduras	3,012	Honduras	3,000
Total for Others	157,792		151,000
Others not Listed	4,297		7,300
Grand Total	166,703		162,300

Stocks:

New data provided by the CSC substantiate a decrease in the MY2008/09 stock number to 37,000 sixty Kg. bags. Most of this coffee is previous crop unsold product retained by coffee farmers looking for better prices. In MY2009/10, stocks are expected to drop very slightly to 35,000 bags.

Policy:

The GOES continues to offer a six percent drawback program for non-traditional exports. This drawback is used by the GOES as an incentive for exporters that trade their products outside of the Central American region. The GOES through the Ministry of Economy returns back to the exporters six percent of the taxes incurred in the export transaction. Soluble and roasted coffees are eligible to apply for this program.

The GOES is providing a loan guarantee of US\$32 per hundredweight (cwt) to cover coffee maintenance and harvesting costs. Farmers contract the loan with a local bank and the GOES guarantees up to US\$15 per cwt if there is a default.

El Salvador continues to actively participate in International Coffee Organization (OIC) meetings. The GOES has set up a program to assist the agricultural sector (including coffee) called "ProAgro" that includes investment in agricultural technology and R & D capacity.

The GOES continues providing assistance to the coffee sector through the coffee recovery program launched in 2005. This is a program administered by the GOES Multi-Sectoral Investment Bank (BMI) with a US\$ 40 million funding level. The program establishes a maximum of US\$335 per hectare for farmers interested in recovering their plantations. This program has a 100 percent GOES guarantee and also contemplates US\$200,000 for the establishment of a coffee nursery where new and improved varieties will be developed. The GOES expects to have positive results from this program in approximately 4 years.

Starting this year, the GOES through the BMI is using the Environmental Services Fund (Fonserva) that sells environmental (CO2) bonds to cover 30 percent of the FICAFE debt. By the end of 2008, the FICAFE accumulated debt stood at approximately US\$175 million.

Production, Supply and Demand Data Statistics:

Coffee, Green El Salvador	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Planted	176	176	176	176	176	176			176
Area Harvested	164	164	164	164	164	164			164
Bearing Trees	541	541	541	541	541	541			541
Non-Bearing Trees	53	53	53	53	53	53			53
Total Tree Population	594	594	594	594	594	594			594
Beginning Stocks	31	31	31	44	44	20			37
Arabica Production	1,480	1,480	1,515	1,400	1,400	1,380			1,520
Robusta Production	0	0	0	0	0	0			0
Other Production	0	0	0	0	0	0			0
Total Production	1,480	1,480	1,515	1,400	1,400	1,380			1,520
Bean Imports	30	30	1	30	30	3			2
Roast & Ground Imports	15	15	15	15	15	14			14
Soluble Imports	80	80	149	80	80	150			146
Total Imports	125	125	165	125	125	167			162
Total Supply	1,636	1,636	1,711	1,569	1,569	1,567			1,719
Bean Exports	1,376	1,376	1,463	1,313	1,313	1,297			1,454
Rst-Grnd Exp.	2	2	2	2	2	2			2
Soluble Exports	2	2	2	2	2	1			1
Total Exports	1,380	1,380	1,467	1,317	1,317	1,300			1,457
Rst,Ground Dom. Consum	32	32	32	32	32	30			30
Soluble Dom. Cons.	180	180	192	180	180	200			197
Domestic Use	212	212	224	212	212	230			227
Ending Stocks	44	44	20	40	40	37			35
Total Distribution	1,636	1,636	1,711	1,569	1,569	1,567			1,719
Exportable Production	1,268	1,268	1,291	1,188	1,188	1,150			1,293